



UNITED STATES DEPARTMENT OF COMMERCE
The Assistant Secretary for Communications
and Information
Washington, D.C. 20230

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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF SECRETARY

The Honorable Reed Hundt
Chairman
Federal Communications Commission
1919 M Street, N.W., Room 814
Washington, D.C. 20554

Re: Amendment of the Commission's Rules To Establish New
Personal Communications Services
(GEN Docket No. 90-314, ET Docket No. 92-100) ✓

Dear Chairman Hundt:

On June 29, the Commission will hold an open meeting to adopt auction rules for broadband personal communications services (PCS). The Commission is also expected to determine how those rules can best incorporate preferences for certain "designated entities," such as small businesses and businesses owned by minorities and women. The National Telecommunications and Information Administration (NTIA), on behalf of the Clinton Administration, is writing to offer its views on that important issue and to assist the Commission in developing competitive bidding rules that would satisfy the intent of the recent competitive bidding statute and promote the public interest.

The Commission should seek to ensure that its auction rules not only assign licenses in an economically efficient manner, but also create opportunities for designated entities -- individuals and firms that historically have not had a full and fair chance to participate in telecommunications markets. Further, the Commission should make every effort to assure that such entities can build and, more importantly, sustain their businesses over a period of time. This would enable them to develop skills and expertise that can be diffused throughout their communities.

NTIA strongly supports the Commission's tentative proposal to reserve two "entrepreneur's blocks" within each Basic Trading Area (*i.e.*, one 30 MHz allocation and one 10 MHz block) for entities whose annual revenues are below a certain threshold -- for example, \$100 million. In giving the Commission authority to auction radio spectrum, Congress expressed concern that "unless the Commission is sensitive to the need to maintain opportunities for small businesses, competitive bidding could result in a significant increase in concentration in the telecommunications industries." A specific small business designation, like the one the Commission is considering, would be the most direct effective

mechanism for preserving opportunities for small companies in an auction environment. The Commission also should help such firms transform their licenses into viable businesses by mitigating the "up-front" costs of obtaining those licenses by, for example, reducing the down payment that must be made and by allowing small firms to pay their winning auction bids in installments over a period of time (i.e., 5 or 10 years).

The Commission should not stop there. Congress also directed the Commission to construct its rules "to ensure that businesses owned by members of minority groups and women are not in any way excluded from the competitive bidding process." NTIA is concerned that minorities and women may not have a fair opportunity to compete in an auction environment if they are accorded only the preferences available to small businesses generally.

The justification for further accommodations for women and minorities is compelling. Businesses owned by such individuals are significantly underrepresented in most telecommunications businesses. For example, a study conducted by Symbiont, Inc., for the Commerce Department's Minority Business Development Agency in 1991 revealed that less than one percent of all telecommunications companies, including both telephone-related and mass media firms, were minority-owned. Of particular relevance to PCS, only 11 minority firms were engaged in the provision of wireless services such as cellular, specialized mobile radio, radio paging, or messaging services.

As far back as 1982, the Commission's Advisory Committee on Alternative Financing Sources for Minority Ownership in Telecommunications identified access to capital as the principal impediment to increased minority involvement in telecommunications industries. The Symbiont report, as well as studies by Timothy Bates of the Joint Center for Political and Economic Studies, Faith Ando for the U.S. Small Business Administration, and the Commission's own Small Business Advisory Committee, reached similar determinations. Bates' study depicts the obstacles faced by minority individuals, in particular. His analysis of 2,133 bank loan recipients indicated that, after controlling for education, age, work experience, and other factors, white business owners received \$1.85 in loans for every dollar of owner equity investment versus only \$1.16 for black business owners.

The Commission can and should rectify this situation by making additional provisions for small businesses owned by minorities and women. Specifically, minorities and women who are otherwise eligible to participate in auctions for the designated "entrepreneur's blocks" should be given a bidder's preference -- that is, a minority or woman would be able to purchase a desired

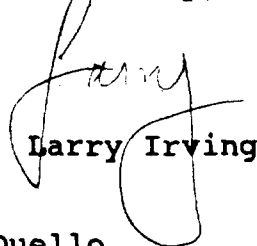
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license for a specified discount below his or her winning auction bid. The Commission has already adopted that approach in its auction rules for narrowband PCS and the Interactive Video and Data Service.

The Commission could further reduce the financial barriers faced by businesses owned by women and minorities by allowing larger firms to make equity investments in such businesses without voiding their eligibility for the "entrepreneur's blocks." However, the Commission should permit only non-majority equity interests that leave actual control in the hands of the individuals who are eligible to bid for the frequencies in question. Allowing larger investments would risk enriching individuals for serving the interests of larger firms, rather than creating a new generation of minority and women owners who can enrich the lives of their communities. For much the same reason, NTIA also supports limiting transfers of "entrepreneur's block" licenses to non-eligible firms for a specified period of time (e.g., 3-5 years) after they are first acquired at auction.

NTIA applauds the Commission's efforts to address this difficult but critical issue. Incorporating the proposals outlined above into the Commission's competitive bidding scheme will effectively balance competing interests and create meaningful opportunities for small businesses, minorities, and women to participate in PCS.

Sincerely,



Larry Irving

cc: The Honorable James H. Quello
The Honorable Andrew C. Barrett
The Honorable Rachelle B. Chong
The Honorable Susan Ness